

West Devon Member Briefing: March 2023

Devon's Economy – Economic recovery update

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Pre pandemic Devon's economy already significantly underperformed the national economy, with GVA at just 77.8% of the UK in 2019. By Spring 2020 Devon's economy was rated 'red' by Government due to its deteriorating situation. Since then Devon's economic performance has been volatile, with continuing low productivity, but with lower levels of unemployed and increasing labour market shortages.

In 2020, 612,000 Devon residents were living in areas* where productivity per head was equal to or poorer than Cornwall's.

**Teignbridge, Torbay, Torrridge, Mid Devon, East Devon and West Devon.*

It now remains to be seen how the rapidly changing situation with the UK and Global economies will impact upon Devon's residents and businesses, with risks to the downside emerging and we will monitor this closely.

Overview on Economic Conditions

The Bank of England recently noted that the following for the UK economy:

Demand and output

- Output growth weakened in some sectors, reflecting a slowdown in demand due to the uncertain economic outlook and is forecast to remain below trend for a few years

Employment and pay

- Employment intentions slowed and recruitment difficulties had in some sectors stabilised; nominal wage inflation increased further, with private sector regular pay growth notably higher than forecast in the November Monetary Policy Report.

Costs and prices

- Input cost inflation remained high, although inflation has begun to fall slightly, it remains well above the 2% target. Higher energy and goods prices recently pushed inflation to above 10%; companies expected to raise prices to protect margins.
- Inflation is expected to fall quickly this year and interest rates have been raised to make sure it falls and stays low.

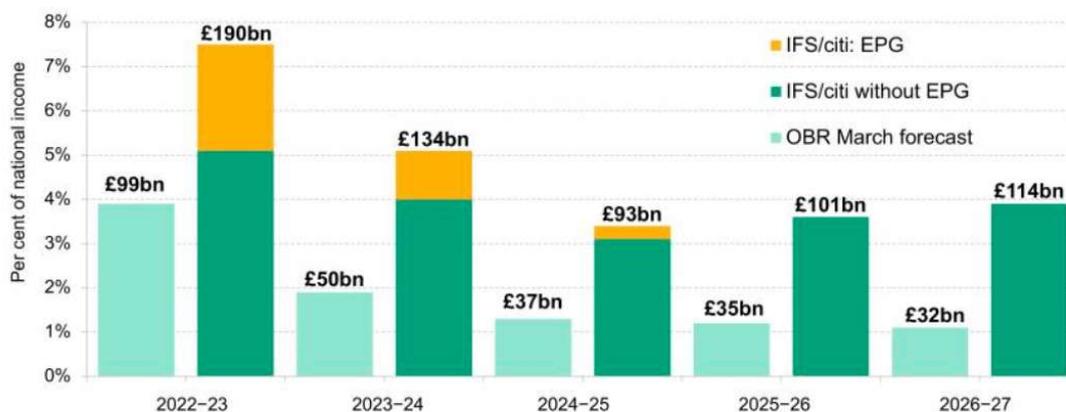
According to the OECD "The UK economy recovered from the Covid-19 shock well thanks to the emergency support measures protecting jobs and incomes and a rapid vaccine rollout, but is slowing amid persistent supply shortages and high inflation. Fiscal policy has to balance gradual tightening with providing well-targeted support to households who are vulnerable to rising costs of living, supporting growth and addressing significant investment needs"

The recent budget announced in November 2022 by the Chancellor Jeremy Hunt was an attempt to stabilise markets and interest rates and appears to be now having some impact, although with a resulting high tax burden. The subsequent March 2023 budget has consolidated this position, but now with marginally more optimistic future economic forecasts, although further economic pain still expected. There is now forecast to be no technical UK recession in the UK as was previously forecast (technical recession = two consecutive quarters of GDP falls), although growth is forecast overall at -0.2% this year, and returning to 1.8% in 2024, but with fairly sluggish growth, but growth nonetheless, in following years (up to 1.9 percent growth in 2027).

The increased energy support measures for households and businesses represents previously announced represented a significant fiscal expansion. The energy support measures were forecast to have an estimated cost of £60bn over 6 months to Government – dependent upon wholesale energy prices and it now appears the cost to Government is lower as prices have dropped. This was a significant intervention that in itself is likely to reduce the short-term rate of inflation in the UK. A more limited package of energy bill support has now been extended to July 2023.

Nevertheless, continuing high rates of inflation and a low sterling/dollar exchange rate mean that the Bank of England continues to be under pressure to continue to increase interest rates, with subsequent knock-on impacts on borrowing, including mortgage rates. It is, however, worth noting that market expectations are changing from day to day in terms of future Bank of England base rates, in part due to the impact of higher interest rates on the stability of parts of the banking and pensions sectors.

Public sector net borrowing forecast with and without Energy Price Guarantee (EPG) (23 September 2022)



Underlying government debt forecast as a percentage of national income (23 September 2022)



The Pound fell in Autumn 2022 to record lows against the dollar due to rising borrowing and less clarity over long term public finances according to the IFS, although it has recovered somewhat into 2023. Bank of England base rates were increased from 1.75% in August 2022 to 4.25% in March 2023 to help restrain inflation and are expected to rise slightly further during 2023. 10 Year Gilt (Government loan) yields have also recently risen from 2.0% back in July to 4.5% in October – falling back to 3.75% currently, but making it more expensive for the UK Government to borrow.

Annual CPI inflation has been high (the highest for 40 years) since summer 2022 at between 9% and 11% compared to 3.2% back in August 2021 – there was an unexpected rise in inflation from 10.1% in January 2023 to 10.4% in February 2023 due in part to the price of vegetables. The highest components of recent inflation have been electricity; gas; heating oil; petrol & diesel; insurance and food. The Office for Budget Responsibility (OBR) currently forecasts inflation to start to fall quickly to around 2.9% by the end of 2023.

Consumer confidence has also recently fallen to a record low as a result of pressures on household budgets and a reduced outlook for household finances over the next 12 months.

The OBR has reported that overall UK Real Household Disposable Income per person (living standards) is expected to fall by a cumulative 5.7 per cent over the two financial years 2022-23 and 2023-24. While this is 1.4 percentage points less than forecast in November, it would still be the largest two-year fall since records began in 1956-57. The fall in RHDl per person mainly reflects the rise in the price of energy and other tradeable goods of which the UK is a net importer, resulting in inflation being above nominal wage growth. This means that real living standards are still 0.4 per cent lower than their pre-pandemic levels in 2027-28. Energy bill support will have helped ease pressures in this area.



The squeeze on incomes is likely to be felt most by low-income households dependent solely on benefits or state pensions; rural households with higher transport and heating oil costs; single parent families with 3 or more children; and those households with poor energy efficiency or higher essential energy use. Drops in discretionary spending by many households are expected as a result and there has also been some shift towards value brands within food spending. Should mortgage rates continue to rise this is likely to also impact upon household incomes, as Fixed Rate mortgage terms come to an end, with many coming to an end during 2023. Around 80% of all mortgages are currently Fixed rate.

Bank of England UK Forecasts – February 2023

	2023 Q1	2024 Q1	2025 Q1	2026 Q1
UK GDP Growth	-0.3% (-0.6%)	-0.7% (-2%)	0.2% (0.1%)	0.9%
CPI Inflation (Q3)	9.7% (10.1%)	3% (4%)	1% (1.2%)	0.4%
Unemployment (% 16+)	3.8% (3.8%)	4.4% (5.2%)	5% (6%)	5.3%
Base Rate (Q4) (market expectations)	3.8% (4.3%)	4.3% (5.1%)	3.6% (4.7%)	3.3%
Gas Price (pence per therm)	189 (356)	174 (265)	136 (195)	NA

Source: Bank of England Monetary Policy Report – February 2023.

Note: Figures in brackets are previous BoE Nov 2022 forecast.

Due to significant changes to the UK and Global economies during 2022 updates vary significantly from previous bulletins.

Gas price forecasts remain significantly higher than pre 2020 averages - The Ofgem Energy Price Cap has increased again from 01 January 2023 – 31 March 2023, to £4,279, an increase in 117% from April 2022.

Significant economic impacts have been felt as a result of the invasion of Ukraine and some ongoing Covid related lockdowns in China. This has created uncertainty in the global economy, particularly in energy markets, with knock-ons also being felt in food and commodity markets. Higher energy, goods, food, and manufacturing input prices have significantly impacted the cost-of-living in the UK and are causing issues for instance with the price of construction materials. The repercussions of the invasion of Ukraine will continue to add to these pressures and are expected to keep inflation higher than previously forecast, although discretionary spend is expected to decline if pay rates do not maintain parity with inflation. Further economic impacts may potentially be expected now from emerging turbulence in the global banking sector.

Devon Local Economy

The Devon local economy was recovering well in Autumn 2021 with economic output rising, unemployment falling and high levels of recruitment activity, but with some impact over Christmas 2021 from the Omicron variant and Plan B restrictions, which led to an increase in cancellations, staff absences and reduced turnover, particularly among retail, other service and hospitality businesses.

In the period January to September 2022, there was ongoing recovery as Plan B and Covid-19 restrictions ended. Economic sectors which have still not yet fully recovered from Covid-19 include Other Services (which includes hairdressers & beauty); high street retail; Public transport (bus, rail, air), Manufacturing and Real estate activities. Accommodation & Food, Construction and Arts, Entertainment and Recreation recovered for a while to pre-Covid levels of output but remain vulnerable to economic disruption, with impacts now being felt due to reducing discretionary spend. Forward bookings for tourism for summer 2023 remain slow in many, but not all locations. Agriculture also has some ongoing impact from the end of the Brexit transition period on animal and fish exports to the EU.

Recruitment activity has bounced back strongly locally (particularly in South Hams, East Devon and Mid Devon) following the lifting of Covid restrictions, with ongoing recruitment difficulties and lower numbers of economically active people. This has led to skills shortages being reporting in many sectors, especially in areas such as Health & Care; Social Work; Hospitality, Admin, Manufacturing and Transport, with rising wages also being seen in these sectors.

Increases to the Cost of Living

Energy Costs

Gas and Electricity Bills have risen sharply in the last few years with the household energy cap set by Ofgem having increased from £1,138 in September 2021 for an average bill to £4,279 by 1st Jan 2023. From October 2022, the Government implemented an energy price guarantee of £2,500 for an average annual household bill, which will currently run to July 2023, in effect subsidising household energy bills.

Property Type	Latest Energy Price Guarantee
All dwellings	£2,500
Detached	£3,300
Semi-Detached	£2,650
End Terraced	£2,450
Converted Flat	£1,950

Energy bills support factsheet - GOV.UK (www.gov.uk)

Household energy bill analysis from Nationwide suggests a property with an Energy Performance Rating of F/G will have an energy bill which could be twice the typical energy bill of an average property. Properties with an Energy Performance Rating of A/B/C may have an energy bill 10% below the typical property.

The Government's original household support package remains in place and includes the following:

- A £400 reduction in electricity bills in 2022/23 (at a cost of £12bn), now not repayable.

- A £150 reduction in Council Tax Bills for (Band A-D) properties at a cost of £2.9bn.
- £650 additional payment to the 8m lowest income households on Universal Credit, Tax Credits and Pensions Credit.
- A £300 separate additional payment to 3m pensioner households
- A £150 separate additional payment to 6m receiving non-means-tested disability benefits.
- Discretionary funding of £144m to support vulnerable people and those who do not pay council tax.
- An increased household support fund from £500m to £1.5bn raising the amount available to DCC from £5m (already spent) by an additional £10m to be spent over 2022/23.
- Eligibility for the Warm Home Discount scheme to be expanded by a third with a £10 uplift from £140 to £150 in winter 2022.
- A 5p per litre cut in fuel duty at a cost of £2.4bn.

The End Fuel Poverty coalition estimated the number of households in fuel poverty in England (defined as spending 10% of income on energy) was 6.3 million (26.7%) in April 2022. They also indicated the proportion of households with children in fuel poverty rose from 19.4% in 2019 to 39% from 01 April 2022 with 56% of single parent households in this position – before the current Energy Price Guarantee.

Area	% of Households in Fuel Poverty (from April 2022)	% of Households with EPC Band D or below	Median Energy Efficiency Score
Plymouth	24.6	56.7	67
Exeter	23.6	51.1	68
Torridge	23.5	63.0	63
Mid Devon	23.0	59.0	65
North Devon	23.0	60.8	65
West Devon	22.9	66.6	62
Torbay	21.0	66.7	64
Teignbridge	19.7	60.9	65
East Devon	18.8	59.4	65
South Hams	18.8	66.7	62
England	26.7	57.9	66

Source: End Fuel Poverty Coalition / ONS 2021

- Note:
1. Fuel Poverty in this table is defined as spending 10% or more of disposable income on energy.
 2. Energy efficiency rating D is equivalent to 55 to 68 on energy efficiency SAP score.
 3. Energy efficiency also varies by age of property, size and type of property, and tenure.

Rural properties which are off gas-grid are also affected by rising heating oil and gas prices. Areas with the lowest average energy efficiency ratings in Devon include Lifton, Dunkeswell, Bampton, Stoke Fleming, Chulmleigh and Moretonhampstead. Areas with the highest estimated average energy costs in were Lifton, Bampton, Dunkeswell, Moretonhampstead and Pathfinder Village.

Proportion of Households by Main Heating Method

	Mains Gas	Electricity	Oil	Community Heating Scheme	Renewable Energy (Including Heat Pump)
Plymouth	88.9	8.2	0.1	1.9	-
Exeter	81.3	12.9	0.2	3.8	-
England	79.8	10.6	2.9	4.4	0.03
Torbay	78.1	16.6	0.1	3.3	0.00
Teignbridge	75.8	12.8	5.7	0.7	0.01
North Devon	67.8	12.8	11.0	0.9	0.03
East Devon	65.5	11.6	7.9	9.7	0.10
Mid Devon	60.0	13.3	16.3	0.7	0.07
South Hams	57.8	17.0	14.0	1.3	0.10

West Devon	55.5	12.7	21.0	0.7	0.07
Torrige	49.0	15.6	21.3	1.0	0.14

Source: ONS 2022

Following the invasion of Ukraine in March 2022 the oil price initially rose from \$90/barrel to \$120/barrel in June, but has since fallen back down to around \$76/barrel in March 2023, the lowest price since the invasion of Ukraine began.

Over the same time the value of the pound had fallen 20% from \$1.35 to \$1.10 making oil imports more expensive, but has since bounced back to \$1.23 on the 23rd March, the highest value to the \$ since June 2022.

Heating oil prices used by many rural homes in Devon peaked at 159p/litre on March 10th 2022 shortly after the Ukraine invasion, but have since fallen to 82p/litre on February 10th 2023, although still up 27% from 65p/litre a year ago.

Average petrol prices peaked at 191.5p/litre on the 1st July 2022, but have since fallen to 145.2p/litre on 24th March 2023, slightly lower than a year ago when prices were 146.6p/litre.

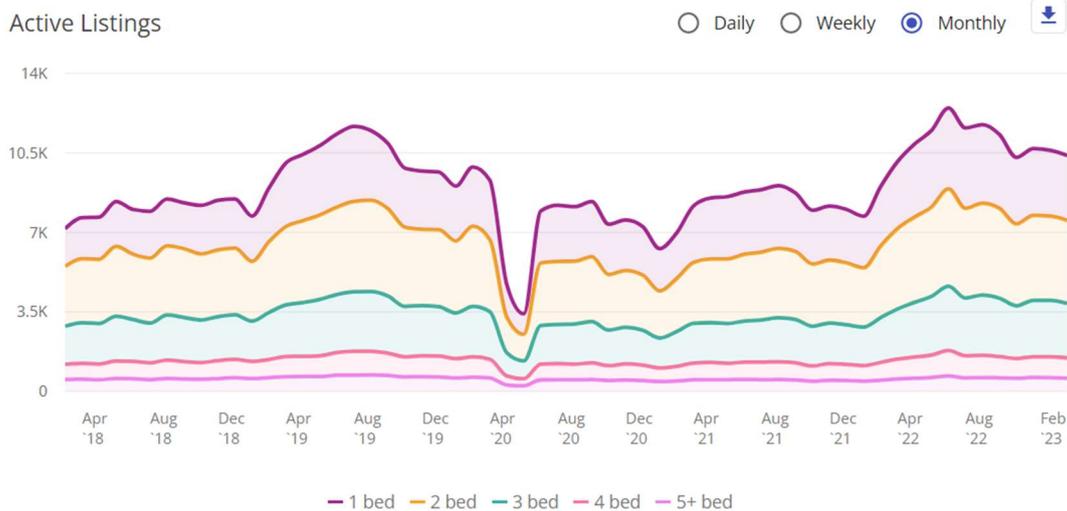
Diesel prices peaked at 199.2p/litre on 1st July 2022, but have since fallen to 168.5p/litre in late February 2023, the lowest price since the invasion in Ukraine nearly one year ago.

Food prices

- Annual food consumer price inflation rose from 16.8% in January to 18.2% in February
- Current increases to input costs (including fuel and commodity prices), higher food processing costs (including wages) and the effects of supply chain disruption are the highest current drivers of inflation.
- Food products which rely on wheat, fertilizer, oilseed, maize, energy, and seasonal labour have seen significant price increases due to global supply issues from Ukraine and Russia, with further impacts from global droughts and floods.
- Usage of foodbanks across Devon is expected to increase further. A recent survey in March 2022 of charities which provide surplus food indicated 70% were seeing increased demand due to the rising cost-of-living, including energy and food bills.

Housing

- Affordability of housing is an increasing issue within the region, with prices reaching record highs in late 2022. People living in rural and coastal areas - particularly the young and those on lower incomes are at risk of being priced out of buying in the housing market.
- Changes during the pandemic such as the temporary stamp duty holiday and remote working have led to further house price inflation in these areas, although a mixture of price stabilisation and falls in some locations are taking effect as prices are expected to have peaked.
- The number of residential rental properties available nationally in 2022 is currently only half the level it was in the years 2017-19. Higher demand has recently led to rental prices rising which significantly increases cost of living pressures. Availability of rental properties in many parts of Devon, especially in coastal areas was at an all time low in 2020 and 2021, although has risen somewhat since then. Impacts from higher mortgage rates and tax take on the buy-to-let market are expected to reduce available long-term rental properties.
- The ONS also recently reported an average rent increase from September 2022 – December 2022 of 4.4% increase in existing private rental prices across the South West (the highest increase in at least 17 years).
- Numbers of Airbnb and Vrbo style properties on the market as temporary holiday lets fell slightly in Devon between 2019 and 2021, but rose sharply in 2022 and active listings are currently 30% higher than they were before the pandemic, even when accounting for the slight fall in stock that occurs each winter. In August 2022 the occupancy rate for these listings was 96%, the same level as August 2021. It remains to be seen whether these levels of occupancy can be sustained, given falls in discretionary spend forecast for 2023.



Source: Airdna – Airbnb and Vrbo listings Feb 2023

- The lack of available housing is contributing towards existing skills shortages in the tourism and hospitality industries as well as for key public services and care home workers. Workers are not willing to travel longer and longer distances for some more lower paid work. Jobs vacancies have remained very high since 2021 – meanwhile the number of people aged 50+ who have exited Devon’s labour market remains high, although economic inactivity is lower than the peaks seen in 2021.
- House price expectations going forward remain mixed, with some forecasts expecting further small increases, but with many now expecting price falls. In such a market, availability of housing stock for sale is likely to be lower in the short-term, as people are less likely to wish to sell, although Government changes to stamp duty may act as a small incentive towards more sales and churn of stock.

Local Authority	Average House Price (£) Nov-2022	Annual HP (%) Inflation Nov-2022	House price to earnings ratio 2010	House price to earnings ratio 2021	Second Home Ownership 2021 (%)
South Hams	439,840	9.6	9.6	11.3	7.7
West Devon	337,846	8.2	8.7	11.3	2.1
East Devon	376,184	12.7	9.9	10.9	3.3
North Devon	333,648	9.9	9.6	10.7	3.8
Teignbridge	330,480	12	8.4	10.4	2
Devon	348,572	11.2	8.9	10.4	3
Torridge	320,380	13.2	9.4	10	3
Mid Devon	325,218	10.9	8.3	9.7	0.6
England	315,073	10.9	6.9	9.1	1
Exeter	320,959	11.3	7.9	9	1
Torbay	270,371	15.1	8.4	8.7	2.4
Plymouth	229,064	11.9	6.1	7.5	0.8

Source: ONS/Land Registry/Council Tax Base

Current data on UK house prices showed that average prices peaked in late 2022 and fell by 1.1% between Dec 2022 and Jan 2023 to £289,818. Recent data from RICS showed a 40% drop in buyer enquiries in August 2022, with the number of properties for sale at a new low, while demand for rental properties remains high. The faster rates of annual house price inflation in places like East Devon and Torridge will have impacted on housing affordability for residents, particularly in already expensive locations, which may impact on workers being able to live near their place of work. According to property site Rightmove private rents for (new lets) currently show an annual percentage increase of 13.7% in the South West (the highest for 16 years). For all private rented accommodation (both existing and new) the average rent in the South

West has increased 4.3%. Data on lower quartile rental prices which may be a better measure affordability shows Exeter and South Hams are currently the most expensive places to rent, while rents are lowest in North Devon and neighbouring Plymouth and Torbay.

Lower Quartile Monthly Rental Prices 2020-21 to 2021-22

Area	Sample Size 2020-21	Sample Size 2021-22	Lower Quartile Monthly Rent 2020-21	Lower Quartile Monthly Rent Oct 2021- Sept 2022	% Increase (2020/21 to 2021/22)
England	448,060	509,390	565	610	7.70%
South West	56,370	70,050	610	650	6.30%
Devon	7,920	9,090	595	615	3.30%
East Devon	330*	1,260	675	625	n/a
Exeter	1,810	2,070	675	695	2.90%
Mid Devon	1,080	1,260	550	600	8.70%
North Devon	1,310	910	500	525	4.90%
South Hams	900	770	650	695	6.70%
Teignbridge	1,320	1,180	595	625	4.90%
Torridge	660	790	525	555	5.60%
West Devon	510	850	575	585	1.70%
Plymouth	4,920	5,080	458	500	8.80%
Torbay	1,580	1,810	495	542	9%

Source: ONS Private Rental Market Statistics.

% Change is excluded where sample size is below 500.

Devon County Council's (DCC) Economy, Enterprise and Skills team continues to keep track of the rapidly changing economic situation by using real-time information from a number of sources, including Government, commissioning targeted studies, evidence and forecasts, and gathering information directly from the business community to keep a track of impacts on our economy.

This information fed directly into our Team Devon response and recovery work programme and that of partner organisations, including District Councils. It has also continues to form the basis of our engagement with Government to help drive forward a series of opportunity focused asks to help build our future economy.

The currently available data and evidence is summarised within this report. Only some datasets are available at a local, or District level. We have included within this report stakeholder and business derived evidence, which we have continued to expand as new data emerges.

Summary of key impacts – West Devon

West Devon saw a significant rise in unemployment particularly among young people and the over 50s during the initial phase of the Covid-19 pandemic. As the economy re-opened in 2021 and early 2022, recruitment activity picked up (particularly in the hospitality and retail sectors), which has led to a reduction in the claimant count, although currently it still remains slightly above the pre-pandemic levels.

After a very long period of falls in Claimant Count since post-Covid re-openings to October 2022, the count in Devon is slowly starting to rise. The overall claimant count rate in Devon was still low at 2.1%, compared with 3.7% for the UK. Everywhere in Devon was below the national average.

The most recent data to February 2023 shows that while the number of claimants has slowly begun to rise overall, high economic inactivity rates for the over 50's age group are now beginning to be impacted by the

rising cost of living, with a subtle return to the workplace taking place for some people, with a subtle drop in the numbers of claimants over 50.

Current Universal Credit claimant count			
	West Devon	Devon County	UK
Rate Feb 2023	1.9%	2.1%	3.7%
Change since March 2020	27%	14%	22%
Change since February 2022	-18%	-20%	-13%

Source: Office for National Statistics March 2023

For young people unemployment rose rapidly at the start of the pandemic, but fell significantly as lockdowns eased, although has slowly started to rise again since Autumn 2022.

Young person unemployment

Current Universal Credit claimant count – aged 16-24			
	West Devon	Devon County	UK
Number of claimants - February 2023	105	1,745	268,020
Change since March 2020	17%	2%	11%
Change since February 2022	-9%	-5%	-5%

Source: Office for National Statistics March 2023

For older workers, unemployment and labour market inactivity remain higher than before the pandemic despite a reduction over the last 12 months. But this trend appears to be reversing as the increasing cost of living begins to impact further.

Aged 50+ unemployment

Current Universal Credit claimant count – aged 50-64			
	West Devon	Devon County	England
Number of claimants - February 2023	160	2,490	360,965
Change since March 2020	14%	8%	16%
Change since February 2022	-27%	-25%	-17%

Source: Office for National Statistics March 2023

Devon and West Devon experienced above the national average reliance on the national Job Retention Scheme (furlough) at the peak of the Pandemic, which has now ended. As the economy and hospitality reopened this situation reversed itself with 3% of employees in Devon and 4% in England still reliant on the scheme on 30 September 2021. In the South-West at the end date of the scheme 50% of employees using the scheme remained fully furloughed while 50% were on flexible furlough. The age profile of those who remained on the scheme in Devon showed 46% (4,300) were aged over 50, while some 8% (800) were aged 16-24. Subsequently an Autumn 2021 ONS business impacts survey suggested 3% of furloughed workers had been made redundant, 3% had left their role voluntarily and 8% had been classed as other which would include retirement.

Most economically vulnerable neighbourhoods in West Devon

The Economy, Enterprise and Skills team has compiled a fine-grained economic vulnerability index focused on neighbourhoods, wards, and towns within Devon to assess the overall state of play in terms of our economy and its constituent areas, looking in particular at the labour market, deprivation and vulnerabilities to economic disruption. This uses a range of different economic datasets and indicators, including from the UK Government Office for National Statistics and is regularly updated with new data.

The 10 current most vulnerable neighbourhoods in West Devon are:

West Devon	Rank within Devon (where 1 is most vulnerable and 457 is least)
Okehampton Central	33
Tavistock Central – West Street, Brook Street and Bannawell Street areas	42
Bere Alston	83
Central Dartmoor – Princetown, Postbridge, Lydford and surrounding areas	88
Lifton, Stowford and surrounding areas	101
Okehampton East – Crediton Road and Exeter Road areas	113
Okehampton South West – Hospital area, Belstone, Meldon and surrounding areas	121
Okehampton – Northfield Road, North Street and North Road areas	135
Hatherleigh, Highampton, Meeth and surrounding areas	143
Chagford and surrounding areas	149

The level of unemployment fell significantly from late 2020, but in some locations has recently slowly begun to rise again. There remain some local areas where it remains higher than the rest of the county.

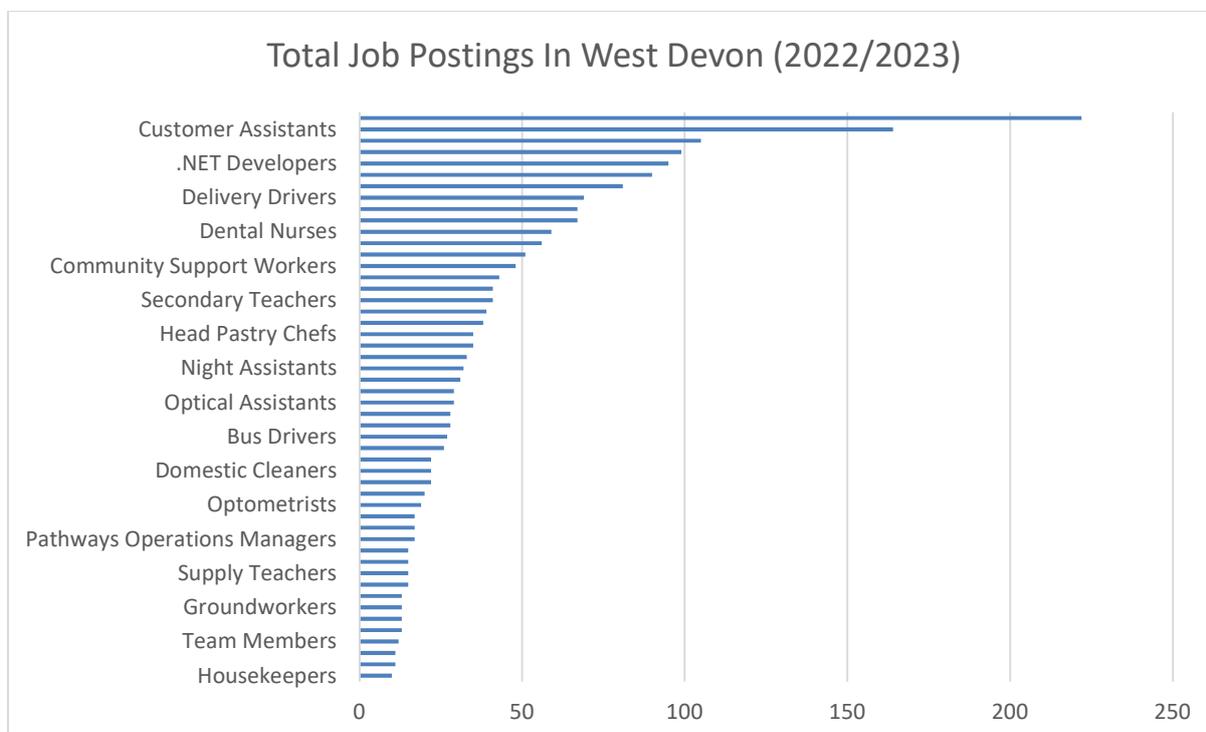
West Devon Wards with the highest Universal Credit Claimant Count

Claimant Count (%)	Mar 20	Aug 20	Feb 22	Feb 23	Feb 23 (actual numbers)
Okehampton North	2.2	4.8	3.8	3.1	95
Okehampton South	2	5	3.1	2.8	65
Tavistock North	1.1	4.1	2.5	2.2	65
Exbourne	1.4	5	2.3	1.6	40
Hatherleigh	1.9	4.4	2	2.1	40
Burrator	1.6	3.8	2.5	1.9	35
Tavistock South East	1.5	4	2.1	1.9	35
Tavistock South West	2.5	5	2.4	1.8	35
Bere Ferrers	2.3	5.3	3	1.7	30
Buckland Monachorum	2.2	4.8	3.8	3.1	30

Note: Claimant count figures are expressed as a percentage of working age population (16-64)

Job vacancies

The Labour market in West Devon is currently still experiencing a shortage of staff in many sectors, also with a mismatch between people and skills in some job roles.



Devon impacts

Devon's economy was rated 'red' by Government in Spring 2020 due to its deteriorating situation and the Economy, Enterprise and Skills team has been working closely with Government to monitor this situation working jointly with partner organisations locally, including District Councils, to drive forward an economic recovery plan, with deliverable and tangible actions.

Prior to the COVID-19 first national lockdown in March 2020 the global, national and local economies were already slowing rapidly, with notable impacts being felt in the County from the closure of Appledore shipyard; Flybe going into administration and significant jobs losses at Axminster carpets.

Certain parts of the tourism, hospitality and retail sectors on which Devon is overdependent were especially hard hit, with many high street shop and restaurant chains announcing closures. Overseas owned branch plant manufacturing operations have also been vulnerable to global factors, with the announcement of closures of KDC Swallowfield in Bideford and Gould pumps in Axminster. During the first lockdown the construction sector was heavily impacted but has since recovered strongly and continued activity during the second and third lockdowns. The fishing sector has also been hit due in part to restricted supermarket supply chains, closure of the hospitality sector both in the UK and overseas, the impact of trade friction following the end of the EU Exit transition period on 31st December 2020.

Now the economy has reopened many sectors in Devon have bounced back, but with significant labour supply issues, cost of living pressures and energy price rises. **Notable recent business expansions include:**

- in summer 2022 Newton Abbot based adhesive manufacturer Forgeway has now opened at a second site close to Exeter Airport.
- In Feb 2023 East Devon based defence manufacturer Supacat announced the creation of an additional 90 jobs in the Plymouth and South Devon Freeport
- In Feb 2023 Exeter based Coastal Workboats Limited (CWL) is to receive £6m towards a £9m project that will deliver a UK-first demonstration of a fully-electric workboat and charging station from the Government's UK SHORE £60m injection into the maritime industry
- Significant progress is being made by Appledore Shipyard's new owners Harland and Wolff on getting the shipyard up-and-running

- £15.6m has been awarded by the UK Government to Torridge District Councils Clean Maritime Innovation Centre. This is in collaboration with the Universities of Exeter and Plymouth. This project will capitalise on the Crown Estate’s plans to develop an initial 4GW of Floating Offshore Wind (FLOW) energy generation in the Celtic Sea, enough to power around 3 million homes, and the Innovation Centre’s waterfront location next to the Harland & Wolff shipyard.

Key parts of the workforce impacted up to 2022 across Devon include:

<ul style="list-style-type: none"> • During the pandemic, lower paid workers were more likely to have been furloughed and three times more likely to have been on reduced hours than their well-off counterparts (Source: London School of Economics)
<ul style="list-style-type: none"> • Freelancers - national average earnings fell from £22,742 per quarter at the start of 2020 to £18,652 in Q2 of 2021, but has recovered strongly to £27,486 in Q2 of 2022 due to an increase in both day rates and capacity utilisation. Separate data shows over a third of contractors left self-employment due to IR35 tax changes, moving into permanent employment, retirement or simply not working. (Source: Association of Independent Professionals and Self Employed IPSE)
<ul style="list-style-type: none"> • Just About Managing (families in work, but on lower incomes and Tax Credits) – pre-Covid figures showed that 39% of children in Devon were in working families claiming tax credits, compared with 36% in Great Britain. There was a particularly high concentration in Torridge (44%) and North Devon (43%) (source: Oxford Economics). Rises in the cost of food, fuel, energy, rent, mortgage payments and interest rates have a disproportionate impact on these groups.
<ul style="list-style-type: none"> • Younger people – large rise in UC claimants under 25 in Devon affected by lockdowns – from 1,710 in March 2020 to 4,140 in March 2021 before falling back sharply with this figure sitting at 1,695 in December 2022 (a decrease from December 2021 of 10%). Rates have now been falling for the last year across Devon for this age group (East Devon has a reduction of 8% in the last 12 months), only in Teignbridge have the figures not fallen (0%). (The claimant rate for under 25s has now started rising slowly over the past few months in Devon at the same time as jobs vacancy levels remain relatively high.
<ul style="list-style-type: none"> • Over 50s UC claimants – a large rise through the year from 2,300 in March 2020 to 5,515 in January 2021 before falling back to 2,505 in January 2023, with some now slowly edging back into the workplace. A rise of 16% in England; 9% in Devon, with a 8% rise in East Devon from March 2020.
<ul style="list-style-type: none"> • Job vacancy numbers in Q3 2022 were 12,354 within the Devon CC area, up from 5,139 in Q1 2020/21. It has risen in most sectors, particularly as the economy as a whole and the tourism sector in particular has recovered. Care workers, Chefs and Customer Service support and Catering assistants are in high demand.
<ul style="list-style-type: none"> • Economic inactivity rates are shown in the table below and point to a significant increase in economic inactivity within Devon during and after the pandemic lockdowns, particularly for those aged 50-64. – A significant proportion of this is likely down to early retirements, with there also being an increase in long term sickness. This has further tightened our labour market and the availability of potential workers. As a result, some sectors which have been able to compete on pay have put up wages, but not all are able to do this. In the last quarter we have seen the beginnings of a reversal in this trend, likely as the impact of the increased cost of living begins to be felt, driving people back into the workplace.

Economic Inactivity - Percentage of population aged 16 to 64 and levels

	Devon CC	Torbay	Plymouth	England
Oct 19-Sept 20 (%)	17.0	24.2	21.0	20.7
Oct 20-Sept 21 (%)	22.1	21.0	19.1	21.1
Oct 21-Sept 22 (%)	21.4	23.5	24.1	21.3
Change 2020 to 2022	4.4	-0.7	3.1	0.6
Oct 19-Sept 20	76,800	18,200	34,800	7,199,900
Oct 20-Sept 21	101,000	15,400	31,600	7,367,700
Oct 21-Sept 22	97,800	17,300	40,400	7,456,500
Change 2020 to 2022	+21,000	-900	+5,600	+256,600

Note: Based on Annual Population Survey and mid-year population estimates.

Key impacts to date for the Devon Economy have been:

Economic output

- Pre pandemic Devon's economy significantly underperformed the national economy, with GVA at just 77.8% of the UK in 2019.
- Devon had a loss of output / productivity of around 5.3% of GVA, greater than the UK wide impact of a loss of around 3.4% for 2020 as a whole on its pre pandemic levels. The UK economy recovered to its pre-Covid level by November 2021 before Omicron and recent cost of living increases have since slowed growth. The UK economy reached its post-pandemic peak in mid 2022.
- The Bank of England forecasts UK output to fall overall by 0.2% in 2023; returning to growth of 1.8% in 2024 and 2.5% in 2025.
- Local level GVA forecasts point to a delayed economic recovery compared with nationally for much of Devon outside of Exeter and particularly in Mid and West Devon.

Unemployment

- A rise in Universal Credit (UC) Claimant count in Devon from 1.8% in March 2020 to 5.0% by May 2020 before falling back to 2.0% in August 2022, although with significant additional levels of inactivity (some hidden unemployment).
- UC levels in Devon rose from being significantly below the national average, to close to the national average, the UK also having seen significant rises in during earlier lockdowns. This has now reversed itself with falls in both Devon and UK levels of UC claimants.
- Very heavy impacts in terms of UC claimant rises during lockdowns for under 25s and over 50s, with numbers of claimants recently falling for all age groups – now edging back to normal.

Furlough

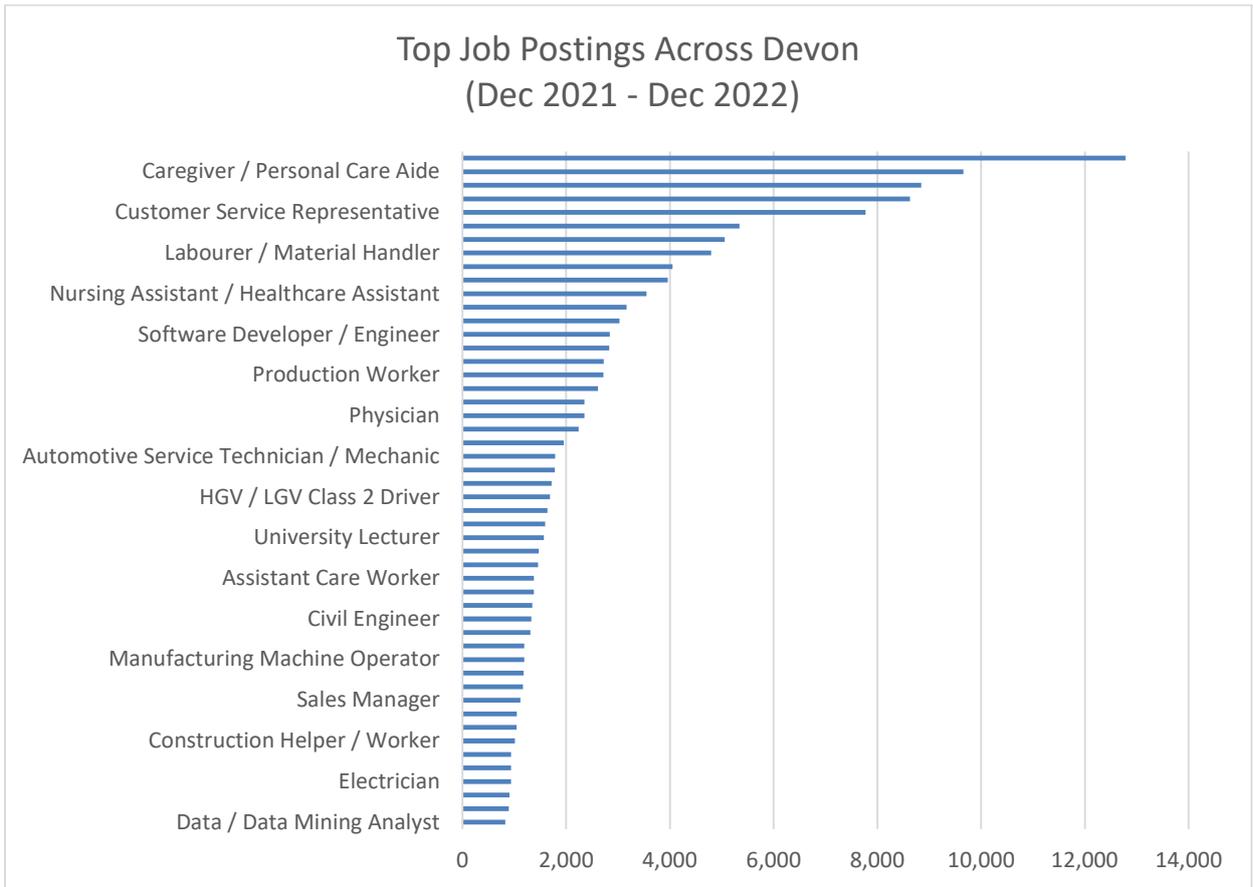
- As the economy re-opened, the proportion of employees furloughed in Devon fell from a peak of 17% in January 2021 down to 3% at the schemes closing date of 30 September 2021.
- At the scheme's closing date 46% of employees (4,300) in Devon still furloughed were aged over 50, these workers may have had greater difficulty returning to work with some being made redundant and others taking retirement.

Labour Market

- As some locked-down businesses reopened in 2021 and restrictions lifted in spring 2022 significant labour shortages have occurred in Devon across many sectors and continue.
- Some sectors continue to experience acute demand include tourism; hospitality; health and care (which had some shortages pre-covid); transport (especially HGV drivers) and skilled construction staff. The voluntary sector has in some instances also reported a shortage of volunteers. Demand for goods and services appears to have bounced back, but now with fewer people able to service those demands.
- A variety of reasons have been given which included higher levels of applications to study, or retrain; EU exit causing an interim lack of migrant workers; an increase in long term sickness; early retirements; high housing costs meaning people can't afford to live near some jobs and people reprioritising their lives during the covid pandemic. Latest data points to some older workers returning or considering a return to work for money reasons.
- In the tourism sector recent evidence now points to over half of all businesses paying more for staff, but reducing their opening hours, with disgruntled customers sometimes being the outcome. A significant number of businesses in summer and autumn 2021 reported brisk business, but the impact of previous lockdowns has impacted their net positions with cash flow risk still looming and potential cost of living impacts on business survivability. Early Summer 2022 was similar. The outlook in 2023 remains uncertain, primarily related to inflationary impacts, availability of suitable labour and now potential impacts from lower discretionary spend.

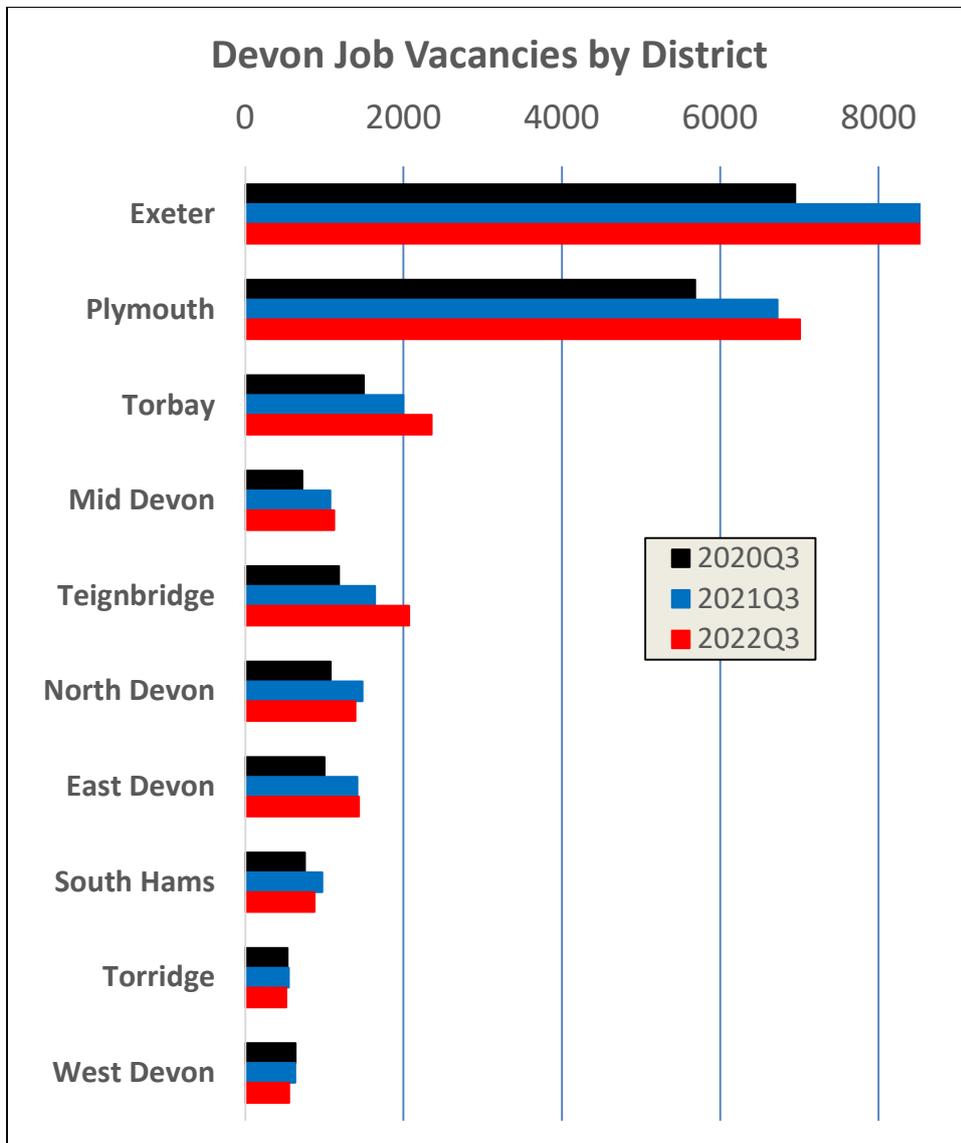
Top Job Postings Across Devon

- Exeter and Plymouth represent the largest employment centres locally.
- There are a significant number of jobs vacancies in many sectors across Devon, with a mismatch between people and required skills in some job roles.



Source: Lightcast Labour Market Analytics

Between July 2022 and October 2022 the most demanded jobs across Devon were Support Workers and health Care Assistants, Warehouse Operatives, Cleaners and Administrators.



Source: Lightcast Labour Market Analytics

Just About Managing and pay

- Average workplace full-time pay rates in Devon are around 82.9% of the UK in 2022, increasing by an average of 6.9% from a low base, the national average increase being 6.2%, However, income levels are lower in some parts of the County (Torrridge 73.5% and West Devon just 69.3% of UK).
- East Devon has seen the highest annual increase in pay (11.8%), whilst South Hams has seen a reduction of 2.6%.
- There is a difference between full-time workers which on average are paid £14.79 per hour in Devon (£16.37 per hour on average in the UK) and part-time workers who on average are paid £11.91 per hour in Devon (and £11.16 on average in the UK) in 2022.
- On average, pay for freelancers during 2020 took a significant hit, but has now bounced back.
- Devon house prices up 16.5% in a year – competition for housing, especially at higher priced end and in rural/coastal areas such as South Hams where prices were up 21% in July 2022. As at September 2022 estate agents are beginning to note a change in these trends.
- Staycation boom and trend towards rural and coastal living alongside residential rental property coming come off the market – renters who have to move have been hit, especially in traditional holiday areas. According to property site Rightmove rent increases for new lets hit a 16 year high in summer 2022 with an annual increase of 13.7% seen in the South West.
- The ONS also reported an average increase from September 2022 – December 2022 of 4.4% in existing private rental prices across the South West (the highest increase in at least 17 years).

- Evidence of highly significant increases (doubling in some instances) in Food Bank usage in Devon over the pandemic and more widely worry about food insecurity, especially among those with children.
- An autumn 2022 study of food insecurity in Devon conducted on behalf of DCC found overall levels of household food insecurity have increased substantially over the last 18 months. 16% of Devon households are now experiencing very low food security compared with 10% in 2021.
- The same survey found nearly eight out of ten Devon households said they were also planning to reduce energy usage this winter (79%).
- The national living wage has increased significantly over the past few years. A further 9.68% rise in the living wage from £9.50 to £10.42 is scheduled for April 2023.

Minimum Wage	2021/22	2022/23	2023/24	% Increase 21-23	% Increase 21-23
Over 23	£8.91	£9.50	£10.42	9.68%	16.95%
Aged 21-22	£8.36	£9.18	£10.18	10.89%	21.77%
Aged 18-20	£6.56	£6.83	£7.49	9.66%	14.18%
Under 18	£4.62	£4.81	£5.28	9.77%	14.29%
Apprentices	£4.30	£4.81	£5.28	9.77%	22.79%

High Streets

- All high streets in Devon were impacted by significant temporary business closures during the first 2020 lockdown.
- Since then there has been a significant shift in spend patterns with many of the smaller market and coastal towns that are focused on independent stores holding up best, buoyed in part by the resumption of the holiday trade; higher numbers of people working from home and shopping more locally and retirees, many of whose incomes have held up feeling more confident in venturing out and spending again.
- The retail businesses most impacted by the pandemic have tended to be national and international chain stores that operate on business models with tight margins and often occupy more expensive town and city centre retail units.
- Retail vacancy rates remain an issue in some areas, but in most Devon towns and cities are below the national average – some significantly so (those remaining above at the most recent survey in late 2022/early 2023 were Cullompton 19%, Barnstaple 18%, Ilfracombe 16%, Seaton 16% and Axminster 15%). There are also higher rates in neighbouring Torquay 20%, Plymouth City Centre 18% and Paignton 15%, while in Exeter City Centre the rate has now fallen slightly to 12%, just below the national average.
- Some nervousness since September 2022 among retailers as discretionary spending begins to fall due to the cost-of-living

Broader business support

SME take-up of Government backed loans

In summer 2020 the Government announced loan schemes to help businesses to cope with the business effects of COVID-19 (these schemes were subsequently extended to 31 March 2021). For Small and Medium sized (SME) businesses these included:

- The Bounce Back Loan Scheme (BBLs) designed to provide financial support to businesses across the UK that are losing revenue and seeing their cashflow disrupted and that can benefit from £50,000 or less in finance. A pay as you grow scheme now also allows businesses to extend the repayment period for these loans up to 10 years and provides for a 6-month payment deferral.
- The Coronavirus Business Interruption Loan Scheme (CBILs) provided financial support to smaller businesses helped small and medium-sized businesses to access loans and other kinds of finance up to £5 million. The government guaranteed 80% of the finance to the lender and pays interest and any fees for the first 12 months.

By the end of May 2021 the British Business Bank stated that for the Devon County Council area it had provided:

- **BBLs: 20,234 loans worth £570.6m – highest take-up in construction and retail businesses – highest take-up in southern and eastern Devon**

- **CBILS: 1358 loans worth £321.7m – highest take-up in retail, construction, and manufacturing businesses, with accommodation and food businesses also well represented – highest take-up in southern and eastern Devon**

SME Grant payments

The Government also extended support to SMEs with further grant payments in the second and third lockdowns to businesses in the Devon County Council area:

- **Local Restriction Support Grants: 48,061 grants were paid by 31 March 2021 with a total value of £109.6m.**
- **A total of 10,114 additional restriction grants have been paid to businesses in the DCC area with a total value of 21.7m up to 30 May 2021. A further 8,464 ‘restart’ grants have also been paid to hospitality, accommodation, leisure, and non-essential retail businesses up to the end of May 2021 with a total value of £64.4m.**

Tourism

The most recent tourism survey data is from the South West Research Company ‘How’s Business’ survey published in February for the period December 2022:

- This shows visitor numbers in December 2022 were down 10% compared to the average.
- 2022 annual visitor numbers were down 9% on 2021 and 7% on 2019 (pre-pandemic)
- Turnover was estimated to be down -12% on 2019.
- There has been a shift towards last-minute bookings, shorter stays and people traveling shorter distances for breaks, which increases uncertainty for businesses in the sector.
- Increasing energy and fuel costs; the reduced outlook for household finances in 2023 resulting in lower levels of bookings; and increasing supplier costs are cited as the key issues concerning businesses currently.

Emerging evidence suggests forward bookings for 2023 for most locations are slower, as competition from reopened overseas destinations has returned and impacts are beginning to be felt in terms of inflationary impacts on discretionary spend. The main summer season of 2022 was fairly buoyant, although down slightly on previous years, but with shorter breaks, shorter distance travelled to breaks and more last-minute bookings overall than the previous year – this trend is expected to continue. Occupancy of Airbnb was fairly high in 2022, but not at 2021 levels. Airbnb stock levels rose in early 2022, having been fairly constant between 2019 and 2021. Towards the end of the summer season of 2022 demand notably weakened and has remained fairly slow since.

Most economically vulnerable communities in Devon

Using our economic vulnerability index the 10 current most vulnerable communities/neighbourhoods in Devon are:

Devon
Barnstaple Town Centre
Ilfracombe – High Street, Fore Street and Quay
Newton Abbot : Station Road and Osborne Street area
Teignmouth: Town Centre and Seafront area
Ilfracombe West – Wilder Road and Torrs Park
Honiton – Dowell Street/Northcott Lane area near High Street
Dawlish: Seafront area
Newton Abbot: Central – Union Road and Halcyon Road area
Ilfracombe – College Area
Exmouth – Littleham

Mortgaged households

Across the UK approximately 20% of mortgages are on a floating, or tracker rate that links to changes in the Bank of England base rate. Other mortgages are on fixed rates, a good proportion of which will expire and need re-mortgaging within 2023/23. There is significant variance in current forecasts for future mortgage rates, but all are currently showing a forecast rise in rates, some fairly substantial. Around **32%** of all UK households had a mortgage on their home/first property in 2021, above the overall rates in Devon, where more properties overall are owned outright (East Devon has the second highest number of properties owned outright in the Country). Across the UK an extra 5% of households held a mortgage on an additional property. Significant concentrations of mortgaged properties tend to be located in places with large amounts of new-build housing, such as Cranbrook.

Currently financial markets in both the UK and Globally are highly unpredictable, but it is expected in coming months that there will potentially be further pressure on the Bank of England to raise interest rates. Further rises in mortgage rates will be likely to act as a significant drag factor on the economy locally, particularly impacting upon any activities related to available discretionary spend. Devon County Council will be closely monitoring any impacts related to potential issues that households may have in affording bills.

Local authority name	2012 Owned Outright (%)	2012 Owned with Mortgage or Loan (%)	2012 Private Rent (%)	2012 Social Rent (%)	2021 Owned Outright (%)	2021 Owned with Mortgage or Loan (%)	2021 Private Rent (%)	2021 Social Rent (%)
East Devon	46.81	27.57	16.53	9.09	51.79	21.92	16.54	9.74
West Devon	43.76	28.7	17.95	9.59	49.22	22.92	18.04	9.83
South Hams	43.59	29.52	17.46	9.43	49.02	23.22	17.64	10.12
Torridge	42.96	28.42	20.19	8.43	48.61	22.75	20.17	8.46
Teignbridge	40.94	32.17	18.04	8.85	46.63	25.47	18.7	9.2
North Devon	39.32	28.96	21.33	10.39	44.8	23.16	21.44	10.6
Mid Devon	37.62	31.33	18.67	12.38	43.8	25.19	19	12.02
Torbay	36.83	30.05	25.27	7.85	42.17	23.77	26.02	8.04
Exeter	30.28	28.92	22.93	17.87	36.01	23.39	23.98	16.62
Plymouth	27.47	30.06	21.86	20.61	32.95	24.38	23.04	19.63

Source: ONS 2023

Wards with the highest level of unemployment in Devon

There are a number of wards in the county which despite overall unemployment falling until recently, continue to have a Universal Credit claimant count which is above the national average.

Claimant Count Unemployment (% of Working Age Population 16-64)

Ward	Mar 20	Aug 20	Feb 22	Feb 23	Feb 23 (actual numbers)
Barnstaple Central Town	6.1	10.6	7.1	6	110
Ilfracombe East	4.3	9.6	5.7	5.1	210
Taw Vale	3.1	6.1	4.3	4.2	40
Barnstaple with Westacott	4	7.3	4.6	4.2	195
Ilfracombe West	1.9	7	4.7	3.7	90
Bideford North	3.6	7.1	4.4	3.7	135
Exmouth Town	3.1	7.2	4.2	3.6	175

Barnstaple with Pilton	2.8	6.2	3.6	3.6	170
Totnes Town	2.9	7.8	4.4	3.5	180
Newton Abbot Bushell	2.9	6.8	4.2	3.4	135

Note: Figures in columns 2-4 are expressed as a percentage of working age population (16-64)

Business cash flows

The British Chambers of Commerce Quarterly Economic Survey for Quarter 4 2022 found that business confidence dropped markedly during Q3 and Q4 of 2022 focused in particular on the hospitality sector.

- Overall around 34% of firms expected profitability to increase, with 36% saying they expected a decreased.
- 21% of firms were investing more in equipment and 22% less
- The main business worry was inflation impacts

Recovery

<https://www.devon.gov.uk/coronavirus-advice-in-devon/document/team-devon-covid-19-economy-and-business-recovery-prospectus/>

Team Devon is a partnership between the County Council, Devon District authorities, the LEP, key public sector agencies and business and community stakeholders to provide a shared vision and single economic programme over the next two years for the County to continue to respond to impacts resulting from the pandemic and build our economy back stronger and more resilient. It aligns activities to address our hardest-hit places, communities and business sectors and takes forward emerging new opportunities capitalising on our significant assets. Key amongst these are:

- Taking forward a set of measures to achieve a stronger, more inclusive, and greener economy
- A focus on the hardest hit sectors and businesses; workforce, communities – taking forward opportunities looking at both immediate support and medium-term action
- Devon County Council separately put forward a complementary Devon Economic Recovery Programme to its Cabinet which is now in the process of delivery. This provides a targeted programme of £6m for Devon-wide economic recovery interventions including projects on Green Innovation; Digital support and business adaption; the Made in Devon initiative; Young people entrepreneurship; Start-up support; Listening ear; and Farm resilience.

Further information

All data sets, sources and projections used in this briefing are current at the time of writing. The COVID-19 economic picture, Russia's invasion of Ukraine, rises in energy and food prices and the cost of living, and now merging issues within the global banking sector are evolving situations with new datasets, reports, forecasts and Government interventions and amendments to programmes happening on an ongoing basis. We update our broader DCC economic evidence-base regularly and evolve our forecasts and projections to reflect new data, providing greater certainty over time.

*Devon County Council Elected Member Briefing,
Devon's Economy – Covid-19 recovery
March 2023*